

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00

LAB-04 SIL-01 OMB-01 ITC-01 /069 W

-----120775 082035Z /21

R 081937Z JUN 78

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 7145

INFO ALL EC CAPITALS

USMISSION GENEVA

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USEEC

GENEVA ALSO FOR MTN

E.O. 11652:N/A

TAGS: EEC, ETRD, EIND

SUBJECT: EC COMMISSION POLICY ON STATE AIDS IN THE
COMMUNITY

REF: (A) 76 EC BRUSSELS 2041, (B) 77 BRUSSELS 15375,
(C) BRUSSELS 5517

1. SUMMARY: THE EC COMMISSION HAS SET FORTH ITS POLICY
ON STATE AIDS IN A COMMUNICATION TO THE EC COUNCIL (SEE
SEPTEL FOR ACCOUNT OF COUNCIL DISCUSSION ON JUNE 6).
WHILE REAFFIRMING THE BASIC INCOMPATIBILITY OF STATE AIDS
WITH A COMMON MARKET, IT PLACES COMPETITION POLICY WITHIN
THE FRAMEWORK OF CURRENT ECONOMIC PROBLEMS, PARTICULARLY
OVERCAPACITY AND THE DANGER OF PROTECTIONISM. THE
COMMUNICATION IS THE FIRST WRITTEN CODIFICATION OF
PRINCIPLES TO GUIDE EXCEPTIONS TO THE TREATY BAN ON STATE
AIDS. IN THOSE CASES WHERE AIDS MUST BE ALLOWED FOR
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SERIOUS ECONOMIC AND POLITICAL REASONS, THE COMMISSION
STRESSES THE NEED TO OBTAIN VIABLE ECONOMIC STRUCTURES
IN THE LONG TERM AND TO AVOID PRESERVATIONIST-TYPE
SUBSIDIES AND SHIFTS IN BURDEN FROM ONE (EC) MEMBER STATE
TO ANOTHER. AIDS FOR SPECIAL SECTORS SUCH AS STEEL OR
TEXTILES SHOULD NOT RESULT IN CAPACITY INCREASES. THE
COMMISSION FAVORS AIDS TO HIGH-TECHNOLOGY SECTORS WHICH

ARE SUBSIDIZED OUTSIDE THE EC. END SUMMARY.

2. IN A RECENT COMMUNICATION TO THE COUNCIL THE EC COMMISSION SET FORTH THE PRINCIPLES WHICH IT INTENDS TO APPLY TO MEMBER STATE AIDS TO INDUSTRY.

3. THE COMMISSION ACKNOWLEDGES THAT INDUSTRIAL DIFFICULTIES AND GROWING UNEMPLOYMENT HAVE PLACED THE MEMBER STATES IN A DIFFICULT POSITION OF TRANSITION AND THAT THIS HAS PRESENTED THE COMMISSION STATE AIDS OFFICIALS WITH SERIOUS POLITICAL PROBLEMS DURING THE PAST FEW YEARS. AT THE SAME TIME, THE TREATY RULES GIVE THE COMMISSION A CERTAIN FLEXIBILITY TO ACCEPT ECONOMIC AND POLITICAL REALITY.

4. THE GUIDING PRINCIPLE OF THE COMMISSION'S POSITION, AS EXPRESSED IN ITS COMMUNICATION TO THE COUNCIL, IS THE GENERAL INCOMPATIBILITY OF STATE AIDS WITH THE PROPER FUNCTIONING OF A COMMON MARKET. NEVERTHELESS, AIDS CAN BE PERMITTED TO REMEDY SITUATIONS WHERE MARKET CONDITIONS:

- BLOCK PROGRESS TOWARDS CERTAIN ECONOMIC AND SOCIAL GOALS;
- REQUIRE AN UNACCEPTABLE AMOUNT OF TIME OR SOCIAL COSTS TO OBTAIN THESE GOALS; OR
- LEAD TO CUTTHROAT COMPETITION WHICH ULTIMATELY LEADS TO LESS COMPETITION.

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5. IN THIS VEIN THE COMMISSION APPROVES OF AIDS TO CORRECT SERIOUS REGIONAL IMBALANCES, TO PROMOTE NECESSARY ADJUSTMENTS IN CERTAIN INDUSTRIES, OR TO NEUTRALIZE THE DISTORTION OF COMPETITION DUE TO ACTION OUTSIDE THE COMMUNITY.

6. THE CRITERIA WHICH THE COMMISSION HAS DEVELOPED TO DEAL WITH THESE PROBLEMS ARE AS FOLLOWS:

- (1) THE COMMUNITY DIMENSION SHOULD BE TAKEN INTO ACCOUNT IN ACTIONS BY MEMBER STATES - INDUSTRIAL AND EMPLOYMENT PROBLEMS MUST NOT BE TRANSFERRED FROM ONE MEMBER STATE TO ANOTHER; THERE MUST BE A REAL NEED FOR SUCH ACTION; ACTION MUST LEAD TO A RESTORATION OF LONG-TERM VIABILITY AND NOT PRESERVE THE STATUS QUO OR PUT OFF INEVITABLE CHANGES.
- (2) TO LESSEN THE SOCIAL AND ECONOMIC COSTS OF ADJUSTMENT, RESCUE OPERATIONS AND EVEN CONTROLLED OPERATING AIDS CAN BE INTRODUCED FOR STRICTLY LIMITED PERIODS.
- (3) AID LEVELS SHOULD BE PROPORTIONATE TO THE PROBLEM INVOLVED.
- (4) RATES AND AMOUNTS OF AID SHOULD BE DEGRESSIVE, LIMITED IN TIME, AND CLEARLY LINKED TO RESTRUCTUR-

ING.

POLICY FOR SPECIFIC SECTORS

7. REGARDING AIDS TO INDUSTRIES IN SERIOUS STRUCTURAL DIFFICULTIES SUCH AS STEEL, SHIPBUILDING, TEXTILES, AND SYNTHETIC FIBERS, THE COMMISSION HAS SOUGHT TO AVOID EITHER A PROLIFERATION OF PROTECTIONIST AIDS OR A DISORDERLY COLLAPSE OF THE INDUSTRIES, WHILE ENCOURAGING AIDS FOR ORDERLY ADAPTATION TO NEW MARKET CONDITIONS THROUGH EITHER AN ACTUAL REDUCTION OF CAPACITY OR THE AVOIDANCE OF UNDESIRABLE INCREASES IN CAPACITY. THE FOLLOWING PRINCIPLES HAVE BEEN ADOPTED BY THE COMMISSION FOR SECTORAL AIDS:
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(1) AID SHOULD NOT HAVE THE SOLE EFFECT OF MAINTAINING THE STATUS QUO. PRODUCTION AIDS ARE INADMISSIBLE

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00
LAB-04 SIL-01 OMB-01 ITC-01 /069 W
-----120802 082036Z /21

R 081937Z JUN 78
FM AMEMBASSY BRUSSELS
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UNLESS THEY ARE CONDITIONAL ON RESTRUCTURING ACTION
AND ARE LIMITED IN TIME.

(2) RESCUE OPERATIONS WHICH MAY BE NECESSARY TO PROVIDE
A BREATHING SPACE SHOULD BE LIMITED TO CASES
INVOLVING ACUTE SOCIAL PROBLEMS.

(3) INVESTMENT AIDS SHOULD NOT RESULT IN CAPACITY
INCREASES.

8. THE COMMISSION IS IN PRINCIPLE POSITIVELY DISPOSED TO
AIDS TO INDUSTRIAL GROWTH SECTORS, AND THE COMMISSION RAISES
NO OBJECTION TO RESEARCH AND DEVELOPMENT AIDS IN THE FIELDS
OF DATA PROCESSING, ELECTRONICS, AND AERONAUTICS. IT
MAINTAINS THAT THE PRINCIPAL COMPETITIVE PROBLEMS IN THESE
AREAS COME FROM INDUSTRIALIZED, HIGH-TECHNOLOGY COUNTRIES
OUTSIDE THE EC (WHICH PROVIDE AIDS TO THEIR INDUSTRY).

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9. FINALLY, THE COMMISSION CONSIDERS THAT CONCENTRATING
MEMBER STATE EMPLOYMENT AIDS IN SECTORS EXPERIENCING SEVERE
DIFFICULTIES BUT WITHOUT A FIRM ADJUSTMENT PLAN WILL ONLY
TRANSFER THE PROBLEM TO OTHER MEMBER STATES. ALTHOUGH
REGIONAL AIDS MAY BE LINKED TO SECTORAL AIDS, THE COMMISS-
SION IS OPPOSED TO REGIONAL AIDS WHICH WOULD INCREASE
CAPACITY IN A CRISIS SECTOR SUCH AS SYNTHETIC FIBERS OR
SHIPBUILDING.

10. COMMENT: ALTHOUGH COMMISSION COMPETITION OFFICIALS
MAINTAIN THAT THIS COMMUNICATION CONTAINS NO NEW ELEMENTS,
IT IS A FORMAL RECOGNITION BY COMPETITION OFFICIALS OF A
SHIFT TO A MORE FLEXIBLE POSTURE. THIS HAS BEEN ADVOCATED
FOR SOME TIME BY OTHER DIRECTORATES GENERAL, NOTABLY THAT
FOR INDUSTRIAL AFFAIRS. AS A COMMISSION DOCUMENT IT
REPRESENTS THE AGREED POLICY WHICH WILL BE FOLLOWED.
ALTHOUGH THESE ISSUES HAVE BEEN DISCUSSED BY THE COUNCIL,
THE COMMISSION, AND THE COMPETITION DIRECTORATE GENERAL IN
PARTICULAR, IS EMPOWERED TO ACT DIRECTLY WITHOUT COUNCIL
AUTHORIZATION AGAINST GOVERNMENTS WHICH IT BELIEVES
JEOPARDIZE COMPETITION WITHIN THE COMMON MARKET. END
COMMENT.

11. COMPLETE TEXT OF COMMUNICATION BEING SENT BY AIRGRAM.
HINTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, COMMISSIONS, FOREIGN ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 08 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRUSSE11270
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780240-0255
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780683/aaaactdn.tel
Line Count: 219
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a239408f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 EC BRUSSELS 2041, 77 BRUSSELS 15375, 78 BRUSSELS 5517
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2443598
Secure: OPEN
Status: NATIVE
Subject: EC COMMISSION POLICY ON STATE AIDS IN THE COMMUNITY
TAGS: ETRD, EIND, EEC
To: STATE USMTN
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a239408f-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014